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June 17, 2005

BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-27

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), please find Bay State's responses to the following information requests of the Department:

DTE-1-25      DTE-8-8      DTE-5-15      DTE-5-18

DTE-5-25      DTE-5-28      DTE-12-10      DTE-12-11

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc: Per Ground Rules Memorandum issued June 13, 2005:

Paul E. Osborne, Assistant Director – Rates and Rev. Requirements Div. (1 copy)  
A. John Sullivan, Rates and Rev. Requirements Div. (4 copies)  
Andreas Thanos, Assistant Director, Gas Division (1 copy)  
Alexander Cochis, Assistant Attorney General (4 copies)  
Service List (1 copy)

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: June 17, 2005

Responsible: Stephen H. Bryant, President

DTE 1-25      Refer to Exh. BSG/SHB-1, at 50-51. If the Department were to determine that the retirement of the Company-owned Metscan devices is to be treated as an ordinary retirement, would the Company be able to recover its entire investment in that equipment?

Response:      If the Department were to determine that the retirement of the Company-owned Metscan devices is to be treated as an ordinary retirement, the Company would not be able to recover the undepreciated portion of its investment in the Metscan equipment. It is for this reason that the Department has, in circumstances where the initial investment was prudently incurred but is rendered no longer used and useful prior to being fully depreciated, allowed the utility to remove the undepreciated amount of the investment from rate base and to amortize it over some reasonable period of time.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIFTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: June 17, 2005

Responsible: Stephen H. Bryant, President

DTE-5-15      Please provide all correspondence between Metscan and Bay State, or any of its affiliates since 1992.

Response:      The Company has conducted a comprehensive search and has located no correspondence between the Company and Metscan. The Company notes that Metscan was acquired by Itron in 1995, and any correspondence since then regarding Metscan devices would have taken place between Bay State and Itron. Please also see the Company's response to DTE-05-16.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIFTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: June 17, 2005

Responsible: Stephen H. Bryant, President

DTE-5-18 Refer to Exh. BSG/SHB-1, at 48, In. 2-4. Please provide all documentation, correspondence, etc. supporting the Company's claim that Itron's commitment to provide technological and operational support to the Metscan technology was diminishing.

Response: The Company's claim that Itron's commitment to provide technological and operational support was diminishing is based on discussions with employees or former employees of Bay State that dealt directly with Itron. One of the primary reasons that Itron commitment to the Metscan product was diminishing was that the product was based on analog, rather than digital, technology, at a time when the telephone industry was rapidly moving to digital technology. As a result, product component availability was diminishing while component costs were rising. Finally, Itron's radio-based technology was winning an ever-larger share of the automated meter reading market. This increased market penetration by Itron and other manufacturers of radio-based meter reading equipment left a declining market opportunity of the Metscan product.

On January 15, 2004, Itron formally notified Bay State that it intended to cease production of Metscan units. See the Company's response to AG-3-32, particularly Attachment AG-3-32 (c) for a copy of the letter notice from Itron to Bay State.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIFTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: June 17, 2005

Responsible: Stephen H. Bryant, President

DTE-5-25 Refer to Exh. BSG/SHB-1, at 50, In. 1-2. Please explain what benefits the Itron system provides to Bay State customers.

Response: The Itron mobile radio solution provides a low cost, accurate and highly reliable method for securing meter readings, as compared to alternative solutions. Attached here for convenience as Attachment DTE-5-25 is page 36 from Attachment AG-3-32 (b). This analysis shows that mobile radio technology is the least cost solution for securing meter readings, as compared to other viable alternatives.

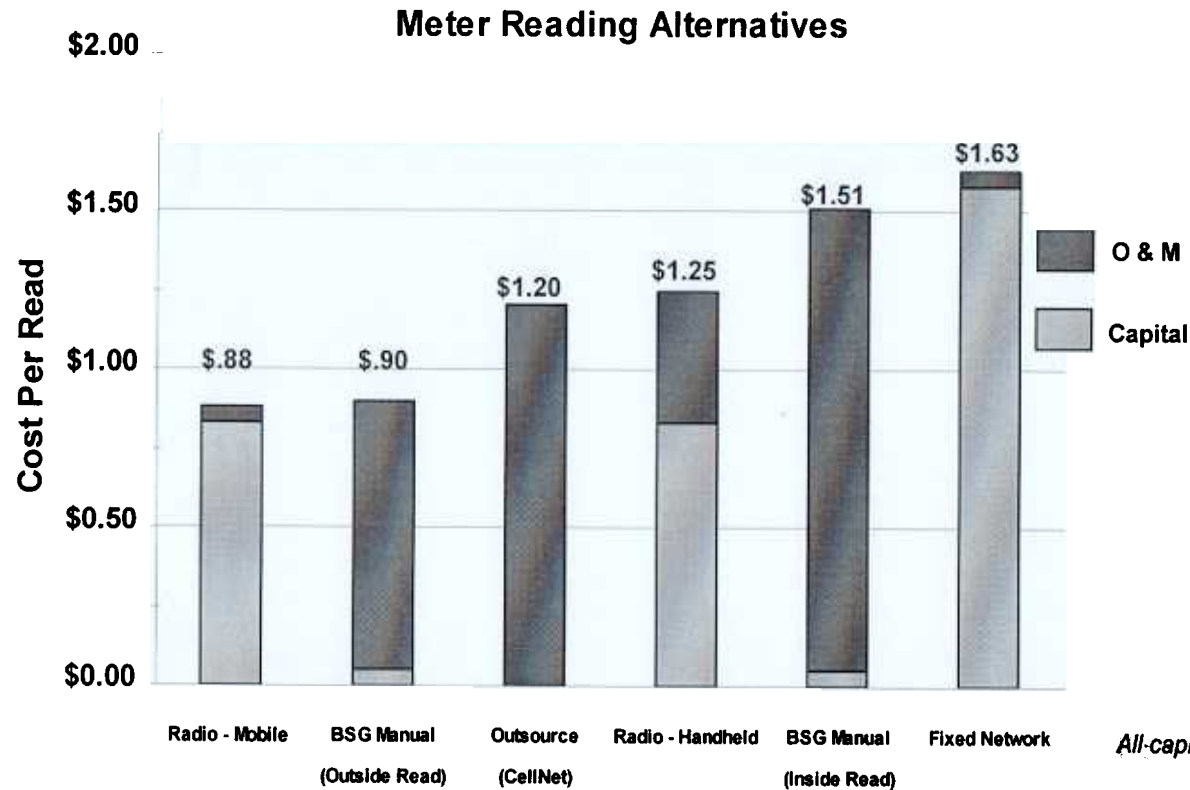


## Alternate Technologies

Attachment DTE-5-25  
DTE 05-27  
Page 1 of 1

**A radio based system appears to be the least expensive alternative.**

### Meter Reading Options



- Read Manually
- Utilize Metscan
- Utilize Alternative Technologies

*All-capital expenditures financed over 10 years @ 8.75%*

*Production rates:*

*Handheld 500 reads per day  
Mobile 4,500 reads per day*

**However, we have a large sunk investment in the Metscan system.**

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIFTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: June 17, 2005

Responsible: Stephen H. Bryant, President

DTE-5-28 Refer to Exh. BSG/JES-1, at 39, In. 9-16, Exh. BSG/JES-1, at 70, In. 13-16, and Sch. JES-7, at 3. Is the remaining amount of \$644,449 associated with the Metscan devices that have yet to be changed out to ERTs? As of December 31, 2004, exactly how many Metscan devices continue to provide service for the Company?

Response: The remaining amount of \$666,449 associated with Metscan devices is a combination of devices that will be, or have been since December 31, 2004, changed out in favor of Itron devices or are devices that serve customers that require daily meter readings. As of December 31, 2004 there were 2,921 meters with Metscan devices. Of these, 175 were required for daily meter reading.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
EIGHTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: June 17, 2005

Responsible: Steve Barkauskas, Vice President Total Rewards

DTE-8-8      Refer to Exh. BSG/SAB-1, at 50. Please provide the prepaid pension and PBOP balances as of December 31, 2003 and 2004.

Response:    The Pension balances reflected in the Bay State Balance Sheets were as provided in Table DTE-8-8 (a):

TABLE DTE-8-8 (a)

	Union/Non-Union Plans 12/31/2004	SERP Plan 12/31/2004	Total Pension Balances 12/31/2004	Union/Non-Union Plans 12/31/2003	SERP Plan 12/31/2003	Total Pension Balances 12/31/2003
Account 186 Intangible Asset	6,765,000		6,765,000	7,164,751		7,164,751
Account 219 OCI - Pension	17,681,522	706,478	18,388,000	19,820,788	917,914	20,738,702
Account 263 Pension Liability	(9,475,757)	(2,930,173)	(12,405,930)	(8,182,774)	(3,120,455)	(11,303,229)
Net Balance	14,970,765	(2,223,695)	12,747,070	18,802,765	(2,202,541)	16,600,224

The change in net balance during the 2004 year (\$18,802,765 - \$14,970,765) reflects the 2004 expense of \$3,832,000 as noted in Exhibit BSG/JES-4 and page 48 of Exh. BSG/SAB-1.



The PBOP balances reflected in the Bay State Balance Sheets were as follows in Table DTE-8-8 (b):

TABLE DTE-8-8 (b)

	12/31/2004	12/31/2003
Account 165		
Union PBOP	1,492,000	1,606,800
Account 186		
Non-Union PBOP	4,246,007	5,479,207
Account 263		
Union PBOP	(4,795,143)	(2,819,051)
Net Balance	<u>942,864</u>	<u>4,266,956</u>

The change in the net balance of \$3,324,092 (\$4,266,956 - \$942,864) primarily reflects the 2004 PBOP expense as noted in Exhibit BSG/JES-4 of \$3,327,000. The remaining \$2,908 reflects the difference between benefits paid and benefits reimbursed from the VEBA trust during the year.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: June 17, 2005

Responsible: Lawrence Kaufmann, Consultant (PBR)

DTE-12-10 Refer to Exh. BSG/JAF-2, Sch. JAF-2-8, at 6. How different is the input price trend used here from the GDP-PI in the price cap formula?

Response: The GDP-PI is the inflation measure used in the price cap index, while the input price trend defined in this Schedule is the measured input price trend for the gas distribution industry. In DTE 03-40, the differential between the input price trend for the US economy and the gas distribution industry was measured to be 0.3%, and this differential was included in the X factor approved in DTE 03-40 and which Bay State has also proposed as the X factor in its price cap index.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWELFTH SET OF INFORMATION REQUESTS FROM THE D.T.E.  
D. T. E. 05-27

Date: June 17, 2005

Responsible: Lawrence Kaufmann, Consultant (PBR)

DTE-12-11 Refer to Exhs. BSG/LRK-1, at 3 and BSG/JAF-2, Sch. JAF-2-8, at 6.  
Please:  
(a) Explain how the PBR price cap adjustment formula in Exh. BSG/JAF-2-8, at 6 differs from the PBR price cap adjustment formula in Exh. BSG/LRK-1, at 3. Specifically, establish a one-to-one correspondence between the components of the two formulae, and indicate any differences in the definition and measurement of the various components;  
(b) explain why ESMREV (i.e., the earnings to be shared with customers under the earnings sharing mechanism ("ESM") specified in § 7.7) is not multiplied by 75% (i.e., 0.75) which is the shareholder's share of any earnings under the ESM?;  
(c) explain the reason for including (BASE\_REVT-1 - SIR\_REVT-1) in the denominator of the PBR price cap adjustment formula in Exh. BSG/JAF-2-8, at 6.

Response: (a) There are three elements of the price cap index in Exh. BSG/LRK-1 at 3. The inflation measure ( $P_t/P_{t-1} - 1$ ) is equivalent to the term  $GDPPI_{T-1}$  in Exh. BSG/JAF-2-8 at 6. The X factor is equivalent to the term X in Exh. BSG/JAF-2-8 at 6. The Z factor is equal to the term  $(Z_{REV}/(BASE\_REV_{T-1} - SIR_{T-1}))$  in Exh. BSG/JAF-2-8 at 6. There are no differences in definition or measurement in these terms between Exh. BSG/LRK-1 and Exh. BSG/JAF-2-8.

The sharing of earnings through the earnings sharing mechanism is not typically considered part of the price cap index *per se* and is therefore not mentioned in Exh. BSG/LRK-1 at 3. However, if the Company's earnings are in the relevant ranges then they will lead to price adjustments, as reflected in the formula presented in Exh. BSG/JAF-2-8 at 6.

(b) The ESMREV is not multiplied by 75% because this term already reflects the total amount of revenue that is to be refunded to customers through the application of the earnings sharing mechanism. This revenue figure is determined by multiplying customer's share of earnings (i.e. 25%) to any difference between the Company's actual earnings and the earnings deadbands.

(c) The term  $(BASE\_REV_{T-1} - SIR\_REV_{T-1})$  is the denominator of this formula to ensure that any rate adjustments resulting from the application

of the PBR plan are applied only to those revenues subject to the PBR mechanism and not the SIR mechanism.